

S U M M A R Y M I N U T E S

REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA



Wednesday, April 27, 2011, 10:00 a.m.

HALL OF ADMINISTRATION
333 Santa Ana Blvd., 5th Floor
Conference Room A
Santa Ana, California

Supervisor Bill Campbell
Member

Supervisor John Moorlach
Member

David E. Sundstrom
Vice-Chairman

Thomas G. Mauk
Chair

Dr. David Carlson
Public Member

Shari Freidenrich
Ex-Officio Member (non-voting)

Steve Danley
Ex-Officio Member (non-voting)

ATTENDANCE: David Sundstrom, Tom Mauk, John Moorlach, Bill Campbell,
Shari Freidenrich, Steve Danley, David Carlson – by
teleconference

EXCUSED: None

PRESENT: Director of Internal Audit
County Counsel:
Clerk:

Dr. Peter Hughes, CPA
Ann Fletcher
Renee Aragon

10:00 A.M.

1. Roll Call
Internal Audit staff – Mike Goodwin, Autumn McKinney, Alan Marcum, Eli Littner;
Auditor-Controller Staff – Shawn Skelly, Nancy Ishida, Christine Young, Ila Patel, Claire
Moynihan; Third District Staff – Louis Goldstein; Second District Staff – Lindsay
Brennan; Fourth District Staff – David Zenger; CFO – Bob Franz; External Auditors
Vavrinek, Trine & Day – Kevin Pulliam, Roger Alfaro
2. Approve Audit Oversight Committee regular meeting minutes of February 23, 2011
Moved-Moorlach, Second-Campbell, Yes-Mauk, Yes-Carlson, Absent-Sundstrom
Approved as Recommended

David Sundstrom arrived at 10:04 a.m.

S U M M A R Y M I N U T E S

3. Receive Single Audit Report and related letters for fiscal year ending June 30, 2010 from external auditors Vavrinek, Trine, Day and Company, LLP
Moved-Moorlach, Second-Campbell, Yes-Sundstrom, Yes-Mauk, Yes-Carlson
Approved as Recommended to include a follow-up audit by Internal Audit of VTD External Audit Coverage and Management Responses

Vavrinek, Trine, Day and Company, LLP (VTD) presented the Single Audit Report and related letters for fiscal year ending June 30, 2010 to the AOC. In GAGAS Report on Internal Control Over Financial Reporting, there were no material weaknesses in the Single Audit Report and one significant deficiency identified related to OCWR and there were no compliance findings. The significant deficiency identified in finding 2010-1, page 31, was presented at the last AOC meeting in February 23, 2011.

The reports presented over internal controls related to 16 major programs. Those programs were selected as part of the Circular OMB A133 criteria. There were no material weaknesses and they noted several significant deficiencies. They provided an opinion on compliances related to those specific programs. Some compliance findings were required to be disclosed. For each of the 16 programs, the federal government had identified 14 possible compliance elements that were considered for testing for each program. Of the 14 elements, those that were direct and material were tested for internal controls and compliance. Significant deficiencies or non-compliance as related to the 14 applicable elements were required to be reported in the Independent Auditor's Report on Compliance (Opinion). Within the Opinion, page 3, findings were disclosed in 2010-2, through 2010-14 and 2010-16. Also noted were significant deficiencies as they related to those control systems as noted on page 4. The total federal expenditures for FY 2010, page 21, \$683.4 million.

Supervisor Moorlach asked how long OCWR was out of compliance. Mr. Pulliam stated it applied to this year only. Noted on page 32, was that a review of the revised calculations was promised. Mr. Tom Mauk stated the change from prior years was possibly negotiated new contracts in the subleases or if something else triggered the change, it would be researched.

Because of the audit findings presented, Supervisor Moorlach asked if Internal Audit should perform a follow-up review. Dr. Hughes stated a review of the findings was not scheduled in the FY 11-12 audit plan, but if the AOC was supportive of doing so, he would add it to the audit plan it could be evaluated. Supervisor Campbell recommended IAD immediately start a follow-up audit to ensure Management's corrections to the items identified were made. Mr. Mauk requested it be done quickly before VTD's next review process.

Mr. Sundstrom stated staffing in SSA was extremely limited due to resources which resulted in some findings identified. He noted they anticipated the impacts of those limitations would result as identified. Mr. Sundstrom stated that unfortunately, these results may continue to occur under the pressures of the budget constraints. He felt the level of risk was increasing as a direct result of staffing issues. Mr. Mauk agreed that staffing restrictions could reveal more and more audit issues. It will take time to pull the County out the budget situation. He stated it would be the decision of the Board to identify what to focus on and to address those resource needs.

S U M M A R Y M I N U T E S

Both Mr. Mauk and Mr. Sundstrom stated the dyke was springing leaks. Mr. Sundstrom stated the trend was that “not all of sudden we have 14 findings.” Supervisor Moorlach stated the Board was visited by reporters related to the litigation issues in SSA and asked how the AOC might be able to assist in a review to avoid a \$5-\$9 million dollar law suits. Mr. Mauk stated the performance auditor may be able to assist because issues could be related to performance issues with clients. He suggested meeting with the collective auditors and risk management to discuss an approach.

4. Approve Fiscal Year 2011-2012 Audit Plan and Risk Assessment
Moved- Moorlach, Seconded–Sundstrom, Yes-Mauk, Yes-Campbell, Yes-Carlson
Approved as Recommended with inclusion of 3 additional audits; a) Sheriff-Coroner ICE Contract Administration, b) Probation GPS Bracelet Administration

Dr. Peter Hughes presented the FY 11-12 Audit Plan and Risk Assessment for consideration and approval. He explained the process for developing the audit plan. He noted that the risk assessment was comprehensive but also relied upon executive management and the Board each year in meetings and through the use of questionnaires to assist in identifying, spreading and targeting the audit coverage where the highest risk was involved. Often issues reveal themselves throughout the year and the audit plan would be modified to include such adjustments. He noted some audit hours were reserved to allow for the adjustments.

Supervisor Campbell raised 3 areas that he requested to see internal audit presence. 1) The new contract for Sheriff-Coroner ICE, 2) OC Parks fees for parking vendors and at the beach, and 3) the Probation GPS bracelet cost and reimbursements monitoring.

Ms. Autumn McKinney, Senior Internal Audit Manager, informed Supervisor Campbell the OC Parks PCI fees audit was currently being audited. Dr. Hughes stated he was supportive of adding the two areas identified to the audit plan as suggested. Supervisor Moorlach asked what other methods were used to identify risk or audit areas outside of the process just explained. Dr. Hughes stated he also considered in his annual Risk Assessment media headlines and also input from the California Counties Chief Auditors Committee members throughout the year. Dr. Dave Carlson stated he was glad to see his suggestion of John Wayne Airport’s Change Order Management process was on the audit plan as detailed on Page 6, item 10. Supervisor Campbell asked for more details when OCCR subdivisions were listed and to include OCCR in the title for reference. All expressed their support for the Audit Plan as revised.

5. Approve OC Internal Audit Department 3rd Quarter Status Report of FY 10-11 for the period July 1, 2010 through March 31, 2011, and approve 3rd Quarter Executive Summary of Audit Finding Summaries for the period July 1, 2010 through March 31, 2011
Moved-Moorlach, Second-Campbell, Yes-Mauk, Yes-Carlson, Yes-Sundstrom
Approved as Recommended
6. Approve External Audit Coverage 3rd Quarter Status Report FY 10/11 for the period July 1, 2010 through March 31, 2011.
Moved-Moorlach, Second-Campbell, Yes-Mauk, Yes-Carlson, Yes-Sundstrom
Approved as Recommended

S U M M A R Y M I N U T E S

PUBLIC COMMENTS: NONE

AOC COMMENTS: NONE

ADJOURNMENT: 10:30 A.M.

NEXT MEETING: SEPTEMBER 21, 2011, REGULAR MEETING